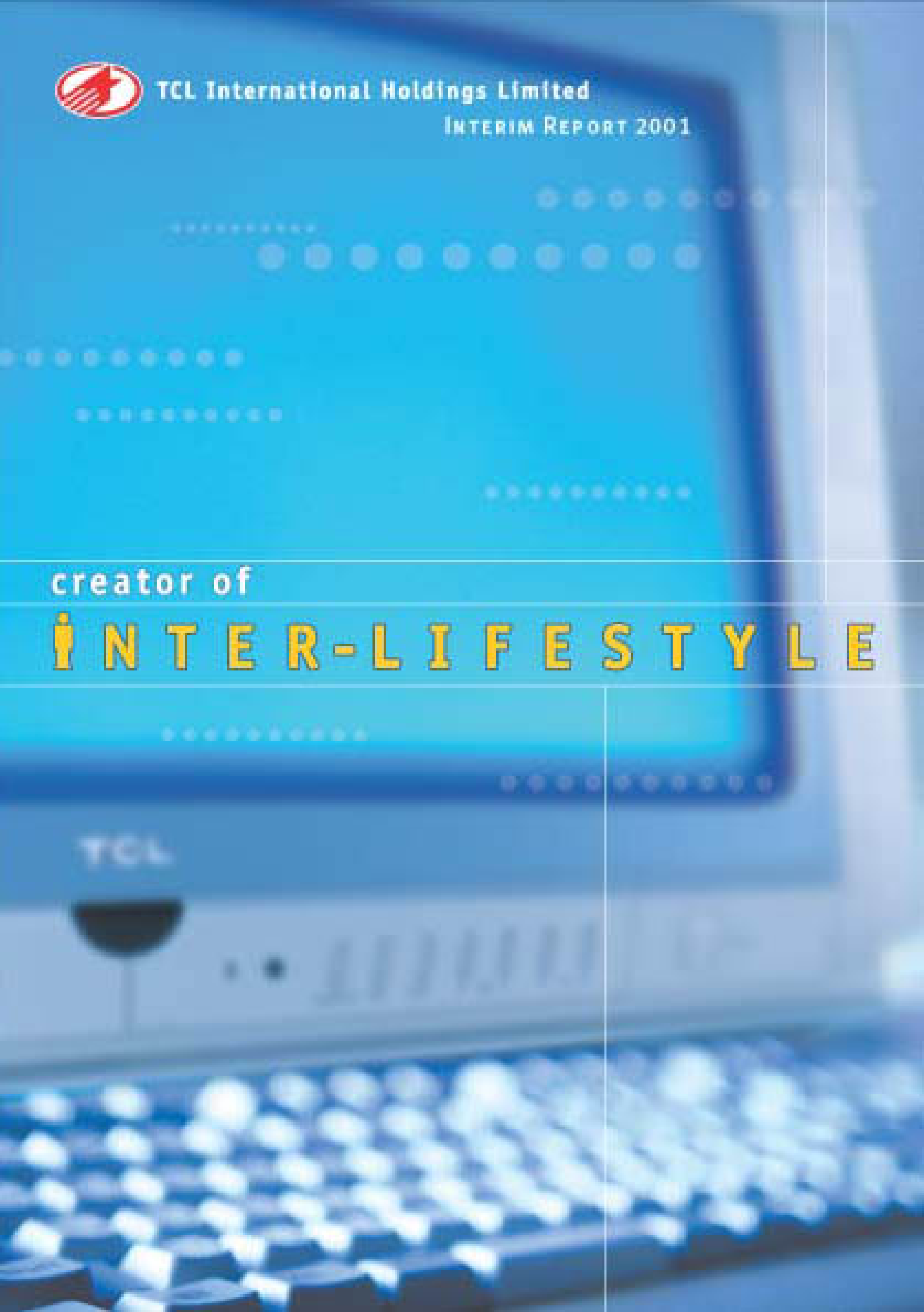
TCL International Holdings Limited

Interim Report 2001

creator of

INTER-LIFESTYLE



Corporate Information

Board of Directors

Chairman
Mr. Li Dong Sheng, Tomson

Vice Chairman
Mr. Yuan Xin Cheng

Executive Directors
Mr. Hu Qiu Sheng
Ms. Wu Shi Hong
Mr. Yan Yong

Non-Executive Directors
Ms. Lu Zhong Li
Mr. Wong Toe Yeung

Independent Non-Executive Directors
Mr. Hon Fong Ming
Mr. Albert Thomas da Rosa, Junior

Company Secretary

Ms. Pang Siu Yin, *Solicitor, Hong Kong*

Principal Bankers

The China State Bank, Ltd
CITIC Ka Wah Bank Ltd
The Development Bank of Singapore Ltd
Hang Seng Bank Ltd
The Hongkong and Shanghai Banking Corporation Ltd
Industrial and Commercial Bank of China (Asia) Ltd
Nanyang Commercial Bank, Ltd
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation

Auditor

Ernst & Young
Certified Public Accountants

Principal Registrar

Bank of Butterfield International (Cayman) Ltd
Butterfield House, Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

Branch Registrar

Tengis Limited
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Principal Office

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Registered Office

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Investor and Media Relations

iPR Asia Ltd
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Hong Kong

The directors of TCL International Holdings Limited (the "Company") are pleased to present the Interim Report and the condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2001. The consolidated profit and loss account, consolidated cash flow statement, and consolidated statement of recognized gains and losses for the six months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 3 to 14 of this report.

Condensed Consolidated Profit and Loss Account
Six months ended 30 June 2001

		Unaudited Six months ended 30 June	
		2001	2000
	Notes	**HK$'000**	HK$'000
Turnover	2	**4,529,129**	4,358,918
Cost of sales		**(3,780,949)**	(3,512,503)
Gross profit		**748,180**	846,415
Other revenue		**35,688**	28,639
Selling and distribution costs		**(456,984)**	(505,211)
Administrative expenses		**(149,180)**	(90,664)
Other operating expenses		**(240)**	(3,148)
Profit from operating activities	2	**177,464**	276,031
Finance costs		**(9,096)**	(17,290)
Share of result of an associate		**670**	(3,181)
Share of results of jointly controlled entities		**3,758**	(4,902)
Profit before tax		**172,796**	250,658
Tax	4	**(6,995)**	(18,081)
Profit before minority interests		**165,801**	232,577
Minority interests		**(4,953)**	—
Net profit from ordinary activities attributable to shareholders		**160,848**	232,577
Dividends	5	**Nil**	Nil
Earnings per share:	6		
— Basic		**6.49 cents**	9.68 cents
— Diluted		**6.47 cents**	9.58 cents

Condensed Consolidated Statement of Recognised Gains and Losses
Six months ended 30 June 2001

	Notes	Unaudited Six months ended 30 June 2001 HK$'000	2000 HK$'000
Exchange differences on translation of the financial statements of foreign entities	11	**(409)**	(35)
Net losses not recognized in the profit and loss account		**(409)**	(35)
Net profit for the period attributable to shareholders	11	**160,848**	232,577
Total recognized gains		**160,439**	232,542
Goodwill eliminated directly against reserves		**—**	(764)
		160,439	231,778

Condensed Consolidated Balance Sheet
30 June 2001

	Notes	Unaudited 30 June 2001 HK$'000	Audited and restated 31 December 2000 HK$'000
Non-current assets			
Fixed assets		**663,094**	646,303
Intangible assets		**260,850**	—
Interest in an associate		**1,454**	784
Interests in jointly-controlled entities		**181,763**	116,088
Long term investment		**1,682**	1,682
		1,108,843	764,857
Current assets			
Inventories		**2,127,712**	2,547,337
Trade and bills receivable	7	**1,045,164**	897,903
Other receivables		**153,953**	98,506
Pledged time deposits		**89,429**	101,790
Cash and bank balances		**849,299**	1,000,928
		4,265,557	4,646,464
Current liabilities			
Trade and bills payable	8	**2,040,647**	2,287,406
Tax payable		**32,511**	68,495
Other payables and accruals		**230,402**	200,942
Bank loans	9	**210,305**	122,822
Loan from ultimate holding company		**—**	139,131
		2,513,865	2,818,796
Net current assets		**1,751,692**	1,827,668
Total assets less current liabilities		**2,860,535**	2,592,525
Non-current liabilities			
Bank loans	9	**6,571**	7,006
Deferred tax		**1,915**	1,915
		8,486	8,921
Minority interests		**24,890**	16,993
		33,376	25,914
		2,827,159	2,566,611
Capital and reserves			
Issued capital	10	**251,122**	240,560
Reserves	11	**2,576,037**	2,326,051
		2,827,159	2,566,611

Condensed Consolidated Cash Flow Statement
Six months ended 30 June 2001

	Unaudited HK$'000
Net cash inflow from operating activities	284,521
Net cash outflow from returns on investments and servicing of finance	(83,486)
Tax paid	(42,083)
Net cash outflow from investing activities	(195,790)
Net cash outflow before financing activities	(36,838)
Net cash outflow from financing activities	(114,503)
Decrease in cash and cash equivalents	(151,341)
Cash and cash equivalents at beginning of period	1,000,928
Effect of foreign exchange rate changes, net	(288)
Cash and cash equivalents at end of period	849,299
Analysis of balances of cash and cash equivalents	
Cash and bank balances	849,299

Notes to the Condensed Financial Statements

Six months ended 30 June 2001

1. Principal Accounting Policies

The interim financial report is unaudited, but has been reviewed by the Audit Committee.

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement, which is the first cash flow statement to be included in the interim financial statements relating to the accounting period ended on or after 1 July 2000. Such departure from the SSAP 25 is permitted under the Listing Rules.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following its adoption of the SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

The major changes to the Group's accounting policies are set out below:

(a) *SSAP 9 (revised) — Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognized dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

(b) *SSAP 30 — Business combinations*

In February 2001, the Group acquired the entire equity capital of TCL Computer Technology Co., Ltd from its controlling shareholders and goodwill on acquisition in the amount of HK$270 million was resulted. Prior to 2001, goodwill arising on the acquisition of subsidiaries, associates and jointly controlled entities was eliminated against reserves in the year of acquisition. During the period, the Group has adopted the new SSAP 30 "Business Combinations" whereby goodwill on acquisition of the subsidiary was regarded as an asset and amortised on a straight line basis over its estimated useful life.

2. Segmental Information

An analysis of the Group's turnover and profit from operating activities by principal activities for the six months ended 30 June 2001 is as follows:

	Turnover		Profit from operating activities	
	Six months ended 30 June			
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
By activity:				
Colour television sets	**3,503,755**	3,392,784	**187,872**	229,602
White goods & air-conditioners	**465,732**	668,803	**48,278**	57,675
Computers related products	**285,960**	—	**(14,705)**	—
Other audio visual products	**104,452**	183,675	**(7,936)**	7,655
Raw material & components	**139,013**	113,196	**5,233**	281
Others	**30,217**	460	**(24,069)**	(4,044)
	4,529,129	4,358,918	**194,673**	291,169
Less: Corporate expenses			**(17,209)**	(15,138)
			177,464	276,031

More than 90% of the Group's turnover and contribution to trading results was derived from activities in the People's Republic of China Mainland.

3. Depreciation and Amortisation

During the period, depreciation of HK$41,393,000 (2000: HK$29,630,000) was charged to the profit and loss account in respect of the Group's property, plant and equipment.

On 28 February 2001, the Group acquired a 100% interest in TCL Computer Technology Co., Ltd at a consideration of HK$341.8 million. In accordance with the Statement of Standard Accounting Practice No. 30, goodwill arising on the acquisition was amortized and charged to the profit and loss account in the amount of HK$8,995,000 (2000: Nil).

4. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof:

	Unaudited Six months ended 30 June	
	2001	2000
	HK$'000	HK$'000
Group:		
Hong Kong	**900**	3,189
Elsewhere	**5,199**	14,892
	6,099	18,081
Share of tax attributable to:		
Jointly controlled entities	**896**	—
	6,995	18,081

5. Dividends

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

6. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK$160,848,000 (2000: HK$232,577,000) and the weighted average of 2,477,374,434 (2000: 2,402,497,802) shares in issue during the period.

The calculation of diluted earnings per share is also based on the net profit from ordinary activities attributable to shareholders for the period of HK$160,848,000 (2000: HK$232,577,000). The weighted average number of shares used in the calculation is 2,477,374,434 (2000: 2,402,497,802) shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 7,817,303 (2000: 25,288,819) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

7. Trade and Bills Receivable

The Group generally grants a credit period of 60 to 120 days to its trade debtors. The aging analysis of the period end trade and bills receivable is as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK$'000	HK$'000
Current to 90 days	**711,479**	649,479
91 days to 180 days	**287,509**	235,295
181 days to 365 days	**33,201**	10,188
Over 365 days	**12,975**	2,941
	1,045,164	897,903

8. Trade and Bills Payable

The aging analysis of the period end trade and bills payable is as follows:

	Unaudited 30 June 2001 HK$'000	Audited 31 December 2000 HK$'000
Current to 90 days	**1,679,938**	1,891,100
91 days to 180 days	**334,703**	382,090
181 days to 365 days	**13,456**	6,807
Over 365 days	**12,550**	7,409
	2,040,647	2,287,406

9. Bank Loans

	Unaudited 30 June 2001 HK$'000	Audited 31 December 2000 HK$'000
Secured	**104,727**	85,903
Unsecured	**112,149**	43,925
	216,876	129,828
Bank loans repayable:		
Within one year	**210,305**	122,822
In the second year	**504**	158
In the third to fifth year, inclusive	**1,595**	580
Beyond five years	**4,472**	6,268
	216,876	129,828
Portion classified as current liabilities	**(210,305)**	(122,822)
Long term portion	**6,571**	7,006

(a) Certain of the bank loans were secured by:

— Certain of the Group's land and building and plant and machinery with total net book value of HK$118,150,000 (31 December 2000: 131,777,000).

— The Group's inventories in the amount of HK$21,448,000 (31 December 2000: Nil)

— The Group's bank deposits in the amount of HK$50,000,000 (31 December 2000: HK$40,000,000)

(b) The unsecured bank loans were guaranteed by the Company's ultimate holding company.

10. Issued Capital

	Unaudited 30 June 2001 HK$'000	Audited 31 December 2000 HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,511,219,289 (31 December 2000: 2,405,600,000) shares of HK$0.10 each	**251,122**	240,560

During the period, 105,619,289 shares of HK$0.10 each were issued at a price of HK$1.78 per share as consideration for the acquisition of TCL Computer Technology Co., Ltd from the Group's immediate holding company, T.C.L. Industries (H.K.) Ltd.

During the six months ended 30 June 2001, share options for a total of 78,756,000 shares were granted under the share option scheme to certain directors and employees of the Group. Details of movements of the share options are set out below:

Exercise price	Outstanding at 31 December 2000	Number of share options Granted	Lapsed	Exercised	Outstanding at 30 June 2001
HK$2.236	34,000,000	—	—	—	**34,000,000**
HK$2.508	68,480,000	—	—	—	**68,480,000**
HK$2.816	660,000	—	—	—	**660,000**
HK$1.676	42,000,000	—	—	—	**42,000,000**
HK$0.928	—	58,756,000	—	—	**58,756,000**
HK$1.042	—	20,000,000	—	—	**20,000,000**
	145,140,000	78,756,000	—	—	**223,896,000**

The above share options entitle the holders to subscribe for shares of the Company at any time up to the expiry of the share option scheme on 14 May 2003.

11. Reserves

	Share premium account HK$'000	Capital reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 December 2000 as previously reported	950,859	64,915	212,891	210	1,009,283	2,238,158
Effect of SSAP 9 (revised) with respect to declaration of 2000 final dividend	—	—	—	—	87,893	87,893
At 31 December 2000 as restated	950,859	64,915	212,891	210	1,097,176	2,326,051
Issue of shares	177,440	—	—	—	—	177,440
Exchange realignments	—	—	—	(409)	—	(409)
Retained profit for the period	—	—	—	—	160,848	160,848
Dividend paid	—	—	—	—	(87,893)	(87,893)
At 30 June 2001	1,128,299	64,915	212,891	(199)	1,170,131	2,576,037

12. Capital Commitments

	Unaudited 30 June 2001 HK$'000	Audited 31 December 2000 HK$'000
Authorized but not contracted for:		
— acquisition of fixed assets	**29,093**	—
Contracted but not provided for:		
— acquisition of fixed assets	**20,023**	25,946
— capital contribution to a jointly controlled entity	**35,010**	35,010
	55,033	60,956

In addition, the Group's share of capital commitments of jointly controlled entities not included in the above was as follows:

	Unaudited 30 June 2001 HK$'000	Audited 31 December 2000 HK$'000
Contracted but not provided for	**12,551**	—

13. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	Unaudited	Audited	**Unaudited**	Audited
	30 June	31 December	**30 June**	31 December
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills receivable endorsed to suppliers	**254,892**	226,082	**—**	—
Bills discounted with recourse	**5,896**	22,983	**—**	—
Guarantee given to banks in connection with facilities granted to subsidiaries	**—**	—	**423,740**	423,740
	260,788	249,065	**423,740**	423,740

As at 30 June 2001, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilized to the extent of approximately HK$39 million (31 December 2000: HK$47 million).

In addition, the Group's share of contingent liabilities of jointly controlled entities not included in the above was as follows:

	Unaudited	Audited
	30 June	31 December
	2001	2000
	HK$'000	HK$'000
Bills receivable endorsed to suppliers	**16,492**	8,096

14. Post Balance Sheet Event

On 20 August 2001, the Group entered into an agreement with its controlling shareholder, TCL Holdings Corporation Ltd, for the acquisition of 65% equity interest in Shenzhen TCL Industrial Institute Limited ("TCL Industrial") for a cash consideration of RMB32.5 million. The principal activity of TCL Industrial is the research and development of electronic consumer products.

Further details of the transaction are set out in the Company's newspaper announcement on 21 August 2001.

15. Related Party Transactions

The Group had the following transactions with related parties during the period:

(a) Continuing transactions with:

	Unaudited Six months ended 30 June	
	2001	2000
	HK$'000	HK$'000
Jointly-controlled entity:		
— Sales of raw materials	**131,783**	96,914
— Interest income	**811**	556
Ultimate holding company		
— Interest income	**2,344**	1,379
— Interest expenses	**2,200**	11,791
Companies controlled by the ultimate holding company:		
— Purchases of raw materials	**138,558**	106,201
— Cash discounts	**8,019**	20,907
— Sales commission	**377,527**	399,257
— Subcontracting fees	**28,919**	14,485
Companies controlled by a jointly-controlled entity		
— Purchases of raw materials	**39,227**	35,039

(b) On 28 February 2001, the Group acquired the entire register capital of TCL Computer Technology Co., Ltd. ("TCL Computer") from TCL Holdings Corporation Ltd ("TCL Holdings") and T.C.L. Industries Holding (H.K.) Ltd ("TCL Industries") for an aggregate consideration of HK$341.8 million. The aggregate consideration was satisfied by cash for a sum of HK$153.8 million to TCL Holdings and by the issue of 105,619,289 new shares of HK$0.10 each in the capital of the Company at a price of HK$1.78 per share to TCL Industries. Before the completion of the transaction, TCL Holdings, through TCL Industries, beneficially owned an aggregate of approximately 51.82% of the issued capital of the Company.

The principal activity of TCL Computer is the manufacture and sale of computer products. Further details of the transaction are set out in the Company's circular dated 9 January 2001.

(c) On 29 June 2001, the Group entered into the following agreements with two associates of TCL Holdings Corporation Ltd, the controlling shareholder of the Group:

— agreement for contracted operation of TCL Digital Science & Technology (Wuxi) Co., Ltd. ("Digital Wuxi") which has a manufacturing plant for manufacturing of colour television sets in Wuxi, the PRC.

— agreement for contracted operation of Inner-Mongolia TCL Electrical Appliance Company Ltd. ("TCL Inner-Mongolia") which has a manufacturing plant for manufacturing of colour television sets in Inner-Mongolia, the PRC.

Under the agreements, the Group is required to pay Digital Wuxi and TCL Inner-Mongolia, as the case may be, an annual contract fee subject to a cap of RMB23 million and RMB16 million respectively.

Further details of the transaction are set out in the Company's newspaper announcement on 19 July 2001.

FINANCIAL REVIEW

Turnover and Gross Profit

Televisions

Market competition and price war continue to be the Group's major challenge this year. Despite a 12% increase in sales volume, actual sales income only increased by 3.3%. Fortunately, part of the effect of the price reduction was offset by the decrease in material cost, in particular, CRTs. Overall gross margin only reduced by 1–2%. The Group is able to maintain its leading position in the industry and is the best performer in the industry in terms of profitability.

White goods

The Group's other home appliances also faced severe competition during the period under review. Higher profit margin of the air conditioners business has enticed more home appliance manufacturers to the market. Despite growth, both in terms of volume and turnover, sales were far from expectation. It was nice to note that price pressure has been alleviated by the decline in component cost and gross margin remained stable.

The Group's product strategy of shifting refrigerators and washing machines to higher end products has resulted in the delay in product rollout. Sales volume was severely affected. Gross margin decreased by 1–2%. With this product repositioning, TCL's white goods products would be better received by the consumers in the second half of the year.

Computers

The overall performance of the Group's newly acquired PC business was below expectation. The burst of the internet bubble has led to a less-than-expected demand in PCs in the PRC. As a result of the continuous price cuts by market players, margin was eroded by 2–3%. The restructuring of operation flow and the upgrading of the ERP system have further aggravated the situation as salespeople, distributors and front-end managers needed time to familiarize with the system and their sales performance was affected.

Expenses

Selling expenses accounted for 10.1% (2000: 11.6%) of the consolidated turnover of the Group, most of which represented sales commission paid to TCL Electrical Appliances Sales Co., Ltd ("Sales Co.") for all sales transacted through the Sales Co. in the PRC. Pursuant to a distribution agreement signed between the Group and the Sales Co., the Group's electrical appliance products are distributed through the sales network of the Sales Co..

Administrative expenses accounted for 3.3% of the consolidated turnover of the Group, comparing to approximately 2.1% of the consolidated turnover over the same period last year. The main reasons for such substantial increase were:

— included in the expenses was HK$9 million amortization of goodwill on the acquisition of the Group's PC business in February this year.

— certain new investments, in particular, the information technology division were still at their initial development stage. As compared to the well-matured home appliance division, relatively higher administrative cost was incurred for their development.

Finance costs reduced by almost 50% as compared to same period last year. With the Group's prudent management of its working capital, the cash generated from the Group's operation was more than enough to reduce the Group's borrowings. Average outstanding debt balance decreased, resulting in the reduction of the Group's finance costs.

Associated Company and Jointly Controlled Entities

The performance of the Group's 20% stake in the mobile phone business was encouraging. Unit sales have increased to over 300,000 sets comparing to 56,000 sets the same period last year. Share of profits before tax attributed to the Group amounted to HK$10 million.

The demand for televisions in India slowed down in the wake of the earthquake in January this year. In the traditionally low season of the first half of the year, market players cut prices in order to maintain their market shares. Margins were squeezed and the performance of the Group's joint venture in India was less than expected with loss of HK$4.7 million shared by the Group. Demand in India will prosper in festive months in the second half of the year. Besides, the joint venture company has started importing CKD kits for assembly to take advantage of the lower customs duty. Better sales and margin are therefore anticipated.

The Group's another major joint venture — Henan TCL Melody Electronics Co., Ltd was able to turn around from its loss-making position in 2001. With the production of the more profitable 29 inches TVs, gross margin as well as overall results was improved.

Other newly invested joint ventures such as the distance learning projects, the compressors manufacturing factory were still at their initial development stage with no profit contributions to the Group.

BUSINESS REVIEW AND PROSPECTS

Television

Albeit relentless market competition in the PRC, the Group's television business outperformed the industry average growth rate of 6.5% in the period under review. The Group's sales of televisions amounted to 2.71 million sets, 12% hiked over the corresponding period in 2000. The Group's market share rose to 19%, which was higher than 2000's market share of 17%.

The Group launched numerous new products during the first half of 2001. Most of them were well received in the market. By closely monitoring market demand and fastly introducing new products, the Group fended off price erosion. This not only expanded the Group's market share but uplifted the corporate image of TCL.

In the second half of the year, the Group's business strategies are to buttress R&D; facilitate sales with new innovative products; rationalize production resources and costs to extend the Group's competitive advantage.

White Goods

The Group's air-conditioning business reported growth despite ongoing fierce competition and price reduction in the market. Sales were up by 7.9% over the corresponding period last year. "Trendy-Technology-People" is the motto behind the design philosophy. Having a grip on the market standards and demand, the Group's air-conditioning business is poised to prosper.

During the period under review, the Group sold 92,000 refrigerators and 169,000 washing machines. In the wake of intensified market competition and the transitional period of shifting product strategy to focus on high-end market, sales of refrigerators and washing machines showed a decline compared to the corresponding period last year. To catapult sales and improve profitability, the white goods division will further improve product mix and speed up new products introduction in the second half of the year.

AV Products

In the period under review, sales of DVD players doubled that of previous year but sales of other products declined. This resulted in sales downturn over the corresponding period last year.

DVD becomes more popular as a result of the reducing price on DVD players, affordable DVDs and the high-resolution television. The Group will capitalize on burgeoning business opportunities in the DVD market and promote sales of its home theatres as well.

PCs

The growth of the industry during the period under review was generally below market anticipation. It was mainly due to the Internet boom last year projecting a picture of rosy demand this year. However, demand failed to live up with the expectation and was aggravated by delay in consumers' desire to buy due to continuous information on price cuts. Other than that, the installation of the ERP system and internal operation restructuring also affected the performance. The Group reported a 3% drop in sales of its PCs compared with the corresponding period in 2000. According to IDC report, the Group's market share in the consumer PC market was 6.1%, ranking third among domestic manufacturers in the second quarter of 2001.

The Group launched two new models during the first half of 2001, namely 988 and P4 series. These products incorporated the latest Intel Pentium 4 processors. Through which, the Group was successful in enhancing its brand recognition and establishing a leading position in Pentium 4 products.

In the second half of 2001, Pentium 4 is to replace Pentium 3 as the mainstream high end product. The Group has been overhauling its sales channels and buoying the sales capability of the 500 Pentium 4 sales specialty centres. Leveraging the market dominance of the TCL brand name and the efficient management, growth will prevail in 2001.

Internet Business

In the highly competitive information technology industry, the Group is currently capitalizing on its resources superiority. Apart from providing quality portal to its customers, the Group has achieved substantial progress in network devices and distance learning programmes.

In the second half of the year, the internet business will operate the portal and network for the distance learning education programmes, market its education platform for classes at the Central Television Broadcasting University, boost Internet business development and define a standard in the long-distance education industry and market.

Under the corporate "information technology" theme of "Heavenly Families on the Earth connecting an inter-lifestyle world", the Group continues to attain synergy in its businesses, contain costs and endeavor in the information technology application and services in the second half of 2001.

Overseas Markets

In the first half of 2001, the Group's overseas reported sales of 360,000 sets of television, representing a growth of 7% over the corresponding period last year. The Group's newly established businesses in overseas countries have successfully penetrated their respective markets. Not only did they capture considerable market share, most of them also brought profits.

To capitalize fully on its competitive advantages in the Group's product research and development, technical know-how, mass manufacturing and product quality, the management will actively exploit new markets in the Middle East and Europe. At the same time, the Group will keep enriching its product lines and expand into AV business and white goods business. The Group's overseas operations see flamboyant growth this year.

Mobile Phones

The mobile phone business, in which the Group holds 20% stake, achieved phenomenal growth. Sales quintupled from 56,000 sets in the corresponding period last year to over 300,000 sets during the first half of 2001, capturing a market share of approximately 1.5%.

Sources indicate that the mobile phone market is approaching maturity. The industry in general has been enduring a decline in profits. The handset manufacturing is to move to Asia and China. This shift will undoubtedly benefit the Chinese enterprises like TCL and therefore the Group predicts accelerated growth in its mobile phone business in the future.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Interest in the Company:

	Shares of the Company	
Name of Director	**Nature of Interest**	**Number of shares held**
Li Dong Sheng	Personal	14,690,000

Interest in associated corporation:

Name of associated corporation	Name of director	Nature of Interest	Percentage of Interest in associated corporation
TCL Holdings Corporation Ltd ("TCL Holdings")	Li Dong Sheng	Personal	7.30%
	Yuan Xin Cheng	Personal	1.39%
	Hu Qiu Sheng	Personal	0.97%
	Lu Zhong Li	Personal	1.31%
	Wu Shi Hong	Personal	0.45%

Note: TCL Holdings held 1,357,887,289 shares in the Company through its wholly-owned subsidiary, T.C.L. Industries Holding (H.K.) Ltd. TCL Holdings is an associated corporation by virtue of its being a controlling shareholder of the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporation, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company has grant options on the Company's share in favour of certain directors, the details of which are as follows:

Name of Director	Exercise price	Outstanding at 31 December 2000	Granted during the period	Outstanding at 30 June 2001
	HK$			
Li Dong Sheng	2.236	12,000,000	—	12,000,000
	0.928	—	1,500,000	1,500,000
Yuan Xin Cheng	2.236	6,000,000	—	6,000,000
	0.928	—	1,200,000	1,200,000
Hu Qiu Sheng	2.236	5,000,000	—	5,000,000
	0.928	—	1,000,000	1,000,000
Lu Zhong Li	2.236	5,000,000	—	5,000,000
	0.928	—	1,000,000	1,000,000
	1.042	—	10,000,000	10,000,000
Wu Shi Hong	2.236	3,000,000	—	3,000,000
	0.928	—	1,000,000	1,000,000
Yan Yong	2.508	300,000	—	300,000
	0.928	—	400,000	400,000
Wong Toe Yeung	2.236	3,000,000	—	3,000,000
	0.928	—	300,000	300,000
		34,300,000	16,400,000	50,700,000

The options entitle the holders to subscribe for shares of the Company at any time up to the expiry of the share option scheme on 14 May 2003. No options were exercised by the directors during the period.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were such rights exercised by them; or was the Company, its subsidiaries, its holding companies or its fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage
T.C.L. Industries Holdings (H.K.) Ltd.	1,357,887,289	54.07
TCL Holdings Corporation Ltd.	1,357,887,289	54.07
TCL Electronics Corporation	1,357,887,289	54.07

Note: T.C.L. Industries Holdings (H.K.) Ltd. is a wholly owned subsidiary of TCL Electronics Corporation (a state-owned enterprise established under the laws of the People's Republic of China) which in turn is a direct wholly-owned subsidiary of TCL Holdings Corporation Ltd. Therefore, the shares in which T.C.L. Industries Holdings (H.K.) Ltd. is shown to be interested are also the shares in which TCL Electronics Corporation and TCL Holdings Corporation Ltd. are interested.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited during the period.

On behalf of the Board
LI Dong Sheng
Chairman

Hong Kong, 30 August 2001